

AGENDA ITEM: CLSA Interlibrary Loan, Universal Borrowing, Equal Access Programs

ISSUES TO COME BEFORE THE BOARD AT THIS MEETING:

1. Consider 2003/04 ILL and Direct Loan Program reimbursement rates.
2. Consider prorating the CLSA loan reimbursement program for 2003/04.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board adopt, subject to the concurrence of the State Department of Finance, reimbursement rates for the 2003/04 fiscal year as follows: for CLSA interlibrary loans, a reimbursement rate of \$4.91 per eligible transaction; for CLSA direct loans, a reimbursement rate of \$.84 per eligible transaction; and that the Chief Executive Officer inform all participants of the 2003/04 reimbursement rates as soon as Department of Finance concurrence is obtained.

RECOMMENDED MOTION FOR CONSIDERATION BY THE BOARD: I move that the Library of California Board direct its Chief Executive Officer to withhold 40% of all CLSA ILL and Direct Loan Program reimbursement payments throughout the 2003/04 fiscal year and that, after determining the full State cost of the ILL and Direct Loan programs for 2003/04, direct the CEO to pay the full amount remaining due to each participating library if sufficient funds remain in the 2003/04 CLSA ILL and Direct Loan Program appropriation, or to prorate the final payment equitably if insufficient funds remain in the 2003/04 CLSA ILL and Direct Loan Program appropriation.

ISSUE 1: Consider 2003/04 ILL and Direct Loan Program reimbursement rates.

BACKGROUND:

During the 1983/84 fiscal year, a major effort was undertaken to determine the actual handling costs incurred by participants in the provision of California Library Services Act (CLSA) loan services. This effort led to the adoption of reimbursement rates for the 1984/85 Interlibrary and Direct Loan Programs based on three elements:

- 1) The weighted average per item handling cost of a loan, based on annual survey results of a representative sample of participant libraries.

- 2) Reporting costs of a loan, estimated at 2% of the average per item handling cost.
- 3) Materials deterioration cost based on industry standard data.

In October of 1984 the State Board adopted a process for annually updating the data on which the reimbursement rates were based and for determining the rates in successive years. This process included the following procedures:

- 1) Obtaining updated salary and benefit data from all previously surveyed libraries and recalculation of those libraries' per item handling cost.
- 2) Surveying an additional two libraries for interlibrary loan and an additional two libraries for direct loan to provide fresh information upon which to base reimbursement calculations.
- 3) Dropping from the handling costs' database any libraries which had significantly altered their internal direct or interlibrary loan procedures, thus rendering their data invalid for purposes of the rate survey.
- 4) Updating industry standard data on materials deterioration costs.

These procedures have been completed for the 2003/04 fiscal year with the following results:

- 1) A summary of the 2002/03 updated data appears in Exhibit A. A complete description of the methodology employed is available upon request.

After all adjustments and weighted factors were calculated, the handling cost per item for interlibrary loan transactions was \$4.48. This is the recommended base rate for interlibrary loan.

For the Direct Loan Program, the study produced a base rate of \$0.49.

- 2) For both the ILL and Direct Loan rates, reporting costs are estimated at 2% of the base rate.
- 3) Calculation of physical deterioration of materials:

The data collection, analysis and publication schedule of Book Industry Trends, essential data used in the calculation of the cost of the physical deterioration of loaned materials, is not available in time to include prior calendar year data in the annual determination of the CLSA ILL and Direct Loan Programs reimbursement rates. Thus, the calculation shown below represents base data collected during the 2001 calendar year. Data for 2002 will not be available until mid-summer of 2003 and will be included in the determination of reimbursement rates for the 2004/05 fiscal year.

Estimated price of the average library purchase = \$25.80

(Source: Book Industry Trends 2001, prepared by the Book Industry Study Group by Fordham University Graduate School of Business Administration)

Estimated additional cost of high-quality (library-grade) binding @ 30% = \$7.74

(Source: The Library Binding Institute)

Average number of circulations (with high-quality binding) before major repair or replacement = 100 (Source: University of California, Berkeley, Preservation Unit)

$$\$25.80 + \$7.74 = \$33.54$$

$$\$33.54 \div 100 = \$.3354$$

<u>Recommended 2003/04 CLSA Reimbursement Rates</u>				
Service	Base Rate	Reporting Costs @ 2%	Physical Deterioration	Recommended Rate
ILL	\$4.48	\$.09	\$.34	\$4.91
Direct Loan	\$.49	\$.01	\$.34	\$.84

Concurrence of the State Department of Finance

Education Code Section 18724(f) establishes in law that Interlibrary Loan and Direct Loan reimbursement rates, as determined by the State Board, are subject to the approval of the State Department of Finance. Exhibit B displays Board adopted and Department of Finance approved reimbursement rates over the last eleven years.

ISSUE 2: Consider prorating the CLSA loan reimbursement program for 2003/04.

BACKGROUND:

By agreement with the Department of Finance, the annual State appropriation for the CLSA Interlibrary Loan and Direct Loan Programs is determined by the Enrollment/Caseload/Population (ECP) process. This method was selected because the costs of the loan programs are driven by factors that are, essentially, beyond the control of local and State government. More specifically the costs are determined by the actual handling costs realized in libraries providing the service and the actual number of times the service is utilized by Californians. While the handling costs are, to a certain extent, controllable by individual participating libraries, the statewide average cannot be easily controlled or predicted. The second factor, usage, can only be controlled by clearly inequitable means; that is, by denying services to individuals after a calculated maximum number

of transactions has occurred.

For these reasons, the ILL and Direct Loan program appropriation in any single fiscal year is based on estimates of the increase or decrease in handling cost, and projections of the levels of use, as well as the availability of funds. The program has been extremely successful and popular, but its history has been marked by years of shortfalls in the annual appropriation. The 2003/04 Budget Act did not include the language requiring the Board to prorate reimbursement payments in the event of an insufficient appropriation. Current projections indicate that a shortfall will occur in the 2003/04 ILL and Direct Loan program budget. Therefore, the pro rating language included in the 2002/03 Budget Bill is being proposed as the more recent act of the Legislature which supersedes the requirement in the CLSA law that the State Board reimburse at the full rate adopted by the Board and as approved by the Department of Finance. However, it does not set aside the provision of Education Code Section 18703(f) to reimburse participating libraries equitably.

The 2002/03 pro rating requirement states:

Should the funds appropriated in Schedule (c) be insufficient to fully cover all transactions under the Direct Loan and Interlibrary Loan programs of the California Library Services Act, funding shall be pro rated such that expenditures for the program are within the appropriation made in Schedule (c) of this item.

In August 2002, the Board adopted the method for implementing the prorating requirement by withholding a percentage of each valid claim throughout the course of the fiscal year, paying the remainder due, or a pro rated portion of the remainder due, after the close of the fiscal year.

The actual experience of the 2002/03 fiscal year is summarized below:

Fiscal Year Full Reimbursement Cost at LoC Board and Department of Finance approved rates (ILL--\$4.49; DL--\$0.78)	
ILL	\$ 6,956,002.29
Direct Loan	<u>\$ 8,863,447.32</u>
Total	\$15,819,449.61
ILL & Direct Loan Program Appropriation	\$11,848,000.00

Final payments to reimburse all participants at 74.9% were processed in August 2003.

The LoC Board will be considering loan reimbursement rates for 2003/04 at this October meeting, as required by law. If projected transaction levels occur and the reimbursement rates proposed through the 2002/03 cost study are adopted by the Board and approved by Finance, the State cost of the CLSA loan program for fiscal year 2003/04 is estimated to be as follows:

Eligible Public Library Interlibrary Loans	1,678,500 @ \$4.91 = \$8,241,435
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Eligible Nonpublic Library Interlibrary Loans	51,000 @ \$4.91 = \$ 250,410
Net Imbalance Direct Loans	11,957,000 @ \$.84 = \$10,043,880
Estimated Total Program Cost	= \$18,535,725

The ILL and Direct Loan budget appropriation for 2003/04 is \$12,145,000. If projected transaction levels are actually realized, the 2003/04 CLSA ILL and Direct Loan program appropriation would fall short of being sufficient to pay the full reimbursable cost of the program.

Recommendation: Staff is recommending that 40% be withheld from each payment during the course of the 2003/04 fiscal year. Due to unknown increases and decreases in transaction levels in any given year, and not knowing the final resource sharing costs for 2003/04, staff has included a larger margin for transaction growth into the proposed percentage being withheld.

GENERAL OVERALL PROGRAM UPDATES:

CURRENT STATUS: Since July 1, 1978, CLSA has supported three programs (there are other CLSA resource-sharing programs as well) specifically designed to encourage the sharing of publicly funded library materials throughout the state of California. The Interlibrary Loan and Direct Loan programs provide partial reimbursements of the increased costs realized when local public and specified non-public libraries extend loan services beyond their normal clientele. This program has greatly increased the individual public library user's access to library resources. The 2003/04 CLSA budget contains \$12,145,000 to support resource sharing services.

CLSA reimbursed loan services continue throughout the state with 177 public libraries. Reimbursement rates for the 2002/03 fiscal year as adopted by the Library of California Board and approved by the State Department of Finance are:

\$4.49 per eligible Interlibrary Loan
\$.78 per net imbalance Direct Loan

Final transaction counts for the 2002/03 fiscal year and projected totals for 2003/04 are displayed below. A history of the program activity is included as Exhibit C.

<u>2002/03 LOAN ACTIVITY</u>					
1 st Quarter Actual	2 nd Quarter Actual	3 rd Quarter Actual	4 th Quarter Actual	2002/03 Total Actual	2003/04 Total Projected

ILL Reimbursable						
Transactions – Public	374,682	355,688	394,685	373,920	1,498,975	1,678,500
– Non-Public	11,369	11,953	15,011	11,913	50,246	51,000
Direct Loans:						
Total	7,306,143	7,221,728	7,482,267	7,467,603	29,477,741	30,952,000
Direct Loans:						
Net Imbalance	2,887,465	2,834,506	2,831,705	2,809,718	11,363,394	11,957,000

Handling/Delivery Cost Study:

Staff issued a Request For Proposal (RFP) to determine the handling and delivery costs of interlibrary loans and the handling costs of direct loans among member institutions of the Library of California. At the end of each phase, a review will occur to determine if the work of that phase has been satisfactorily completed and that continuation of the project will occur with the same consultant team.

The four phases to the project are:

Phase I: Design the cost study to determine handling and delivery costs of interlibrary loan and handling costs of direct loan.

Deliverable Products: Bibliography and archive
Outline of final report
Questions to be addressed in collecting data
Data collection methodology

Phase II: Implement the cost study and report findings

Deliverable Products: Draft report of cost study results
Final report of cost study results

Phase III: Develop loan compensation policy recommendations

Deliverable Products: First draft report of policy options
Second draft report of policy options
Final report of policy options
Presentation to the Library of California Board

Phase IV: Calculation of compensation formula

Deliverable Product: Formula for reimbursement for handling and delivery costs of interlibrary loan and handling costs of direct loan, to be used in subsequent rulemaking.

In October 2002, the project was awarded to F. Mason and Associates from Texas. On January 22, 2003, staff met with Florence Mason and Ken Bierman to discuss Phase I of the cost study. A Reactor Group, made up of individuals from the library community, will have input on the deliverables list in Phase I, above. The timeline for the draft data collection methodology and the completion of the consultants' work on Phase I is the end of September 2003.

The initial timeline for Phase I provided for completion of the consultants' work during the spring of 2003, with a review process to occur during the summer. Given the uncertainty of funding for loan reimbursement during the spring and difficulties in completing the work of this phase, the timeline was extended into the fall. The Introduction and Overview to the California Cost Finding Manual and the draft of the Cost Finding Manual were received from the consultants on September 25, 2003, and are appended to this document as Exhibit D. Staff intends to analyze these documents with input from the field. Funding for Phase II has yet to be identified and is currently not included in the programs to be funded during 2003/04 with LSTA funds.

RELATED ISSUES TO COME BEFORE THE BOARD IN THE FUTURE:

1. Updates on actual and revised projections of Interlibrary and Direct Loan program levels and costs.
2. Update on handling/delivery cost study implementation.

Relevant Committee: Resource Sharing
Staff Liaison: Sandy Habbestad/Rush Brandis

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